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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 17 April 2007, London

Project: Post-employment benefits

Subject: Curtailments and Settlements (Agenda papers 4C and 4D)

Agenda paper 4C: Presentation of gains or losses on settlements and curtailments

INTRODUCTION

1. At the March meeting, the Board came to the preliminary view that all gains and losses on defined benefit obligations should be recognised in comprehensive income. The Board also decided that the discussion paper would discuss three approaches to presentation of the components of defined benefit cost. This paper considers how gains and losses on settlements and curtailments of defined benefit promises should be displayed in each of those approaches.

STAFF RECOMMENDATIONS

2. The staff recommends:

(a) the gain or loss on settlement and curtailment continues to be recognised when the settlement or curtailment occurs

(b) for the three approaches discussed in the March meeting, the gain or loss on settlement or curtailment should be presented as follows:

Approach 1: in profit or loss

Approaches 2 and 3: outside profit or loss for settlements, in profit or loss for curtailments

STAFF ANALYSIS

3. Paragraph 109 of IAS 19 requires that entities recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

4. [Part paragraph omitted in observer notes] **The staff recommends that the gain or loss on settlement and curtailment continues to be recognised when the settlement or curtailment occurs.**

5. At the March meeting, the Board agreed to propose three approaches to the display of gains and losses on defined benefit post-employment benefit plans. These are:

(a) Approach 1: all gains and losses recognised in profit or loss.

(b) Approach 2: financing costs recognised outside profit or loss.

(c) Approach 3: remeasurement changes recognised outside profit or loss.

6. The following paragraphs consider how gains or losses on settlements and curtailments should be presented under each of those approaches.

Approach 1

7. In approach 1, all gains and losses are displayed in profit or loss. **Thus the staff recommends that the gain or loss on settlement or curtailment should also be displayed in profit or loss in approach 1.**

Approach 2

8. Approach 2 presents only the costs of service in profit or loss. All other costs are consequences of deferring payment of employee remunerations and financing that deferred payment. Those other costs are presented in other comprehensive income.

9. [Paragraph omitted in observer notes]

10. [Paragraph omitted in observer notes]

11. [Paragraph omitted in observer notes]

12. For approach 2, the staff recommends that:

- (a) **gains or losses on settlements are presented outside profit or loss;**
- (b) **gains or losses on curtailments are presented in profit or loss.**

Approach 3

13. Approach 3 presents changes arising from changes in financial assumptions outside profit or loss. Thus, changes in the computed “price” of the pension obligation and fair value of plan assets are recognised outside profit or loss.

14. [Paragraph omitted in observer notes]

15. [Paragraph omitted in observer notes]

16. For approach 3, the staff recommends that:

- (a) **gains or losses on settlements are presented outside profit or loss;**
- (b) **gains or losses on curtailments are presented in profit or loss.**

Settlements with curtailments

17. [Paragraph omitted in observer notes]

Agenda paper 4D: Curtailments and Settlements: Curtailments and negative past service cost

INTRODUCTION

1. This paper brings to the Board's attention an issue that the IFRIC has referred to it; namely, whether plan amendments that reduce benefits are curtailments or negative past service costs.
2. When the IFRIC debated this issue, it observed that there would be limited benefit in taking this issue onto the IFRIC agenda because the Board was currently engaged in a post-employment benefits project. The IFRIC therefore decided not to take the issue onto its agenda, but to refer it to the Board for consideration.
3. This paper:
 - (a) describes the issue (paragraphs 5-11)
 - (b) considers whether and how the Board should address the issue (paragraphs 12-21).
 - (c) suggests how the issue might be resolved (paragraphs 22-25)

STAFF RECOMMENDATIONS

4. The staff recommends that the Board amends IAS 19 as part of phase 1 to eliminate the concept of negative past service costs, as set out in Appendix A (Appendix A is not included in observer notes).

STAFF ANALYSIS

The issue

5. The issue is whether plan amendments that reduce benefits are accounted for as curtailments or as negative past service costs. The issue arises because there is ambiguity in the definitions in IAS 19.
6. IAS 19 states that "A curtailment occurs when an entity ...amends the terms of a defined benefit plan such that a material element of future service by current

employees will no longer qualify for benefits, or will qualify for only reduced benefits. (paragraph 111).”

7. A past service cost is defined as “...the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.” However, IAS 19 also notes that past service cost “...may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).” (paragraph 7)
8. [Paragraph omitted in observer notes]
9. [Paragraph omitted in observer notes]
10. At its January and March 2007 meetings, the IFRIC discussed three possible views that had been reported in practice. It did not determine whether those views were appropriate interpretations of IAS 19. [Part paragraph omitted in observer notes]
11. However, the IFRIC noted the issue was becoming more prevalent in practice because economic events made it more attractive for entities to curtail or settle plans. The IFRIC also concluded that the issue results in diverse practices that have a significant effect on reported results. Some IFRIC members argued that rejecting this issue is not appropriate because those divergent practices should be eliminated. Accordingly, the IFRIC decided to refer the issue to the Board.

Should the Board address this issue?

12. The IFRIC discussed an approach to resolving the issue that would amend IAS 19. This is set out in Appendix A and discussed in paragraphs 22-**Error! Reference source not found.** However, the IFRIC noted the Board’s project on post-employment benefits is expected to result in amendments to IAS 19 in 2010. The Board’s decisions so far that all gains and losses on defined benefit plans should be recognised in comprehensive income reduces the importance of distinguishing between curtailments and negative past service costs because it eliminates deferred recognition. Curtailments and negative past service costs would both be recognised immediately.

13. [Paragraph omitted in observer notes]

14. [Paragraph omitted in observer notes]

How should the Board address the issue?

15. If the Board decided to address the issue by amending IAS 19, it could do so in one of the following ways:

(a) include amendments in phase 1 of the post-employment benefits project.

(b) include amendments in its annual improvements process.

(c) create a new project to make amendments.

16. [Paragraph omitted in observer notes]

17. The IFRIC originally considered asking the Board to amend IAS 19 as part of its annual improvements process (ie, approach (b)), which is designed to deal with areas of inconsistency in standards or where clarification of wording is required.

18. [Paragraph omitted in observer notes]

19. [Paragraph omitted in observer notes]

20. [Paragraph omitted in observer notes]

21. [Part paragraph omitted in observer notes] The staff recommends making the amendments discussed in paragraphs 22-**Error! Reference source not found.** even though the treatment of negative past service costs and curtailments will be aligned in phase one. The staff argues that it would be clearer to users of IAS 19 if a plan amendment had a single classification.

Resolving the issue

22. In analysing the issue for the IFRIC, the staff noted comments that the concept of a negative cost is flawed and explored amendments to IAS 19 that would delete the notion of negative past service cost from IAS 19. The proposed amendments are set out in Appendix A. [Omitted in observer notes]

23. Those amendments would treat plan amendments that improve benefits as giving rise to service costs (past or current). Plan amendments that reduce benefits would be curtailments. They can be summarised as follows:

Effect of plan amendment	Changes in benefits attributed to	
	Past service	Future service (no change in DBO ¹)
Reduce or eliminate benefits	<ul style="list-style-type: none"> Decrease in DBO treated as curtailment 	<ul style="list-style-type: none"> Affects current service cost in future years Disclosures for curtailments required
Increase or introduce benefits	<ul style="list-style-type: none"> Increase in DBO treated as past service cost 	<ul style="list-style-type: none"> Affects current service cost in future years Disclosures for past service cost required

24. [Paragraph omitted in observer notes]

25. The staff recommends that the Board:

(a) address this issue in phase 1 of the post-employment benefit project.

(b) eliminates negative past service costs as set out in the proposed amendments in the appendix.

APPENDICES OMITTED FROM OBSERVER NOTES:

- Appendix A: Amendments to IAS 19
- Appendix B: Basis for Conclusions

¹ defined benefit obligation